ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

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INSIDE

NZ ECONOMICS TEAM

Cameron Bagrie
Chief Economist
Telephone: +64 4 802 2212
E-mail: Cameron.Bagrie@anz.com
Twitter @ANZ_cambagrie

Philip Borkin
Senior Economist
Telephone: +64 9 357 4065
Email: Philip.Borkin@anz.com

David Croy
Senior Rates Strategist
Telephone: +64 4 576 1022
E-mail: David.Croy@anz.com

Mark Smith
Senior Economist
Telephone: +64 9 357 4096
E-mail: Mark.Smith2@anz.com

Sam Tuck
Senior FX Strategist
Telephone: +64 9 357 4086
E-mail: Sam.Tuck@anz.com

Kyle Uerata
Economist
Telephone: +64 4 802 2357
E-mail: kyle.uerata@anz.com

Con Williams
Rural Economist
Telephone: +64 4 802 2361
E-mail: Con.Williams@anz.com

Sharon Zöllner
Senior Economist
Telephone: +64 9 357 4094
E-mail: Sharon.Zollner@anz.com

THE TEA LEAVES

ECONOMIC OVERVIEW

We can clearly tick an array of boxes across our key C's for a lower OCR (commodity prices, China, cost of funds) but there are still numerous sticking points; credit growth is reasonable – with housing remaining solid, confidence is strong and the outlook for core inflation is disconnected at present from a low headline. We'll change our assessment of the latter if inflation expectations start to drift lower again. Governor Wheeler's annual sifting of the tea leaves speech is expected to be very balanced and labour market statistics are expected to show recoil and improvement. We remain lukewarm on any rebound in dairy prices eventuating anytime soon and expect this week's GDT auction result to be soft. This will reinforce the downdraft from lower export prices and the terms of trade, which is going head-to-head with construction boosting the economy in the other direction.

DATA PREVIEW

We expect a decent amount of recoil in the Q4 HLFS. Employment is expected to have ended the year on a firm footing, in line with the positive tone from more timely labour demand indicators. The participation rate is also expected to have lifted modestly, which will contribute to the unemployment rate ticking up to 6.1%. However, it is quite possible the unemployment rate has in fact already peaked for this cycle. Wage growth will again be contained at a low level, but we will be looking for early hints of a turn given tentative evidence of emerging capacity constraints.

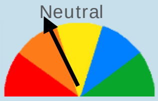
INTEREST RATE STRATEGY

Local short end interest rates remain biased down following the Bank of Japan's rate cut and the RBNZ's move to a more explicit easing bias. We continue to favour receiving short end rates on any dips. While further OCR cuts may be required this year not all of the criteria in our watch-list justifying cuts have yet been ticked, so playing from the long side requires patience. Long end interest rates have broken lower, going against the grain of the consensus view of higher yields. We expect a period of consolidation in long end yields as markets digest global data and events.

CURRENCY STRATEGY

We find it difficult to articulate a clear weakening trend for the NZD over the near-term given solid domestic nuances (dairy aside) and global central banks stepping up to soothe sentiment. NZD/AUD is under pressure but is now starting to offer value when we eye the 12 month picture between NZ and Australia growth wise.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	2.6% y/y for 2016 Q4	Moderate growth outlook. Downside risks exist (globe) but some local upside risks also evident.	Neutral  Negative Positive
Unemployment rate	5.9% for 2016 Q4	The demand for labour is sluggish, while labour supply remains strong. Wage inflation contained.	Neutral  Negative Positive
OCR	2.50% by Dec 2016	OCR is back at record lows. We have a flat forecast for 2016, with downside risk.	Neutral  Down Up
CPI	1.0% y/y for 2016 Q4	Lower petrol prices and further ACC levy cuts from July expected to keep headline inflation low this year. Core inflation measures likely to remain sub 2%.	Neutral  Negative Positive

ECONOMIC OVERVIEW

SUMMARY

We can clearly tick an array of boxes across our key C's for a lower OCR (commodity prices, China, cost of funds) but there are still numerous sticking points; credit growth is reasonable – with housing remaining solid, confidence is strong and the outlook for core inflation is disconnected at present from a low headline. We'll change our assessment of the latter if inflation expectations start to drift lower again. Governor Wheeler's annual sifting of the tea leaves speech is expected to be very balanced and labour market statistics are expected to show recoil and improvement. We remain lukewarm on any rebound in dairy prices eventuating anytime soon and expect this week's GDT auction result to be soft. This will reinforce the downdraft from lower export prices and the terms of trade, which is going head-to-head with construction boosting the economy in the other direction.

FORTHCOMING EVENTS

ANZ Commodity Price Index – Jan (1:00pm, Tuesday, 2 February).

GlobalDairyTrade Auction (early am, Wednesday, 3 February). We are not optimistic on the near-term outlook for prices, with an ongoing supply-demand imbalance expected to persist for a while yet.

Labour Market Statistics – Q4 (10:45am, Wednesday, 3 February). We expect employment to recoil from Q3 weakness, lifting 0.8% q/q. The unemployment rate is expected to tick up to 6.1% on the back of a modest lift in the participation rate. Our full preview is on page 5.

RBNZ Governor Wheeler speaks at the Canterbury Employers' Chamber of Commerce (12:45pm, Wednesday, 3 February). The speech is titled "The Global Economy, New Zealand's Economic Outlook, and the Policy Targets Agreement".

RBNZ Assistant Governor McDermott speaks in Sydney (11:30am, Thursday, 4 February). The speech is titled "Forward guidance – enhancing monetary policy in New Zealand".

RBNZ Head of Prudential Supervision Fiennes speaks in Auckland (5:20pm, Thursday, 4 February). The speech is titled "Taking Stock and Looking Ahead".

WHAT'S THE VIEW?

How are our key Cs shaping up? To reiterate, these are a set of variables we put on the table as influencing our assessment of the outlook for monetary policy. They are not the be-all and end-all but cover as we see it some key pertinent factors likely to determine any OCR movement/market sentiment/monetary policy/RBNZ thinking.

- **Commodity prices;** dairy remains under pressure, there are expanding questions over how the 2016/17 milk price is likely to shape up (we have $5.50-$5.75/kg MS pencilled in) and non-dairy is coming under pressure too. Some relief in low oil prices but the terms of trade hit (we have a 16% peak to trough fall pencilled in) is still material and enough to knock 2-2.5% off growth over 2 years. We are not expecting a sustained uplift in commodity prices anytime soon, despite oil bouncing off lows last week.
- **China; nuances on the ground are still not good.** The jury remains out on whether policymakers can hold it together so their economic adjustment is orderly.
- **Cost of funds;** not wide, but off lows and market price action is fickle. **There is pressure on borrowing costs to move up**, it's just a question of time. **We are still seeing very competitive pressure across the housing market space though.** The effective mortgage rate is down 57bps since the start of 2015, and even with no further OCR cuts, we estimate there is around a further 20bps of effective cuts in the pipeline. That's more fervour to housing.
- **Core inflation;** the RBNZ's explicit mention of core inflation being 1.6% in the *OCR Review* was notable. Our core inflation gauge remains subdued, but there are **more anecdotes on the ground on pressure across the likes of construction and tourism.** Activity from both are filling the growth void a lower terms of trade has created. The construction sector doesn't have a demand constraint; it has a resourcing one to manage all the projects!
- **Confidence; no sign of the "negatives" dominating and impacting the broader economy.** New Zealand still seems to have a nice vibe. Central banks can relax somewhat when such leading indicators are printing positively; we have that.
- **Credit growth;** a proxy for wider housing developments. **Housing is still brisk** and complicates monetary policy given a) the impact on asset price inflation, b) clear evidence of leveraging style behaviour (and lower savings) which can create financial stability issues, and c) a strong obvious pickup in housing outside of Auckland.
- **The currency; adjusting in a partial manner to local nuances but still elevated and a path still complicated** by a) pressure on Asian currencies to depreciate, b) the attractiveness of our yield (the level and direction of rates matter), c) the Fed, which the consensus is shifting to might not be doing much in 2016, and d) ECB (will do

ECONOMIC OVERVIEW

whatever it takes) and BoJ (taking rates into negative territory). It's a combination that is not bearish the NZD unless we see a major risk off event. The NZD/AUD has adjusted of late but looks cheap now based on directional signals for growth across New Zealand and Australia.

Some of the boxes above we can clearly tick, but others appear a way off and hence we are not getting overly excited about the prospect of the OCR moving lower for now.

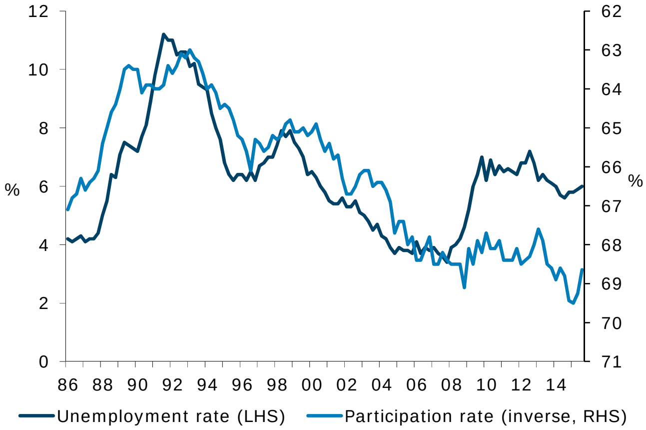
In terms of the RBNZ itself, **the combination** of rising core inflation, noted upside and downside risks to the outlook, ongoing Auckland housing financial stability risks, housing pressures in other regions, an expectation of accelerating activity growth over 2016 and the recent loosening in financial conditions, **doesn't give the impression we have a central bank with their finger on the OCR trigger despite a clear easing bias being in place.** They've given themselves wiggle room via the bias, and no doubt the more direct easing bias was partly directed at the NZD after December's own goal; that's smart(er) central bank tactics.

Inflation expectation surveys and barometers will take on special importance over the coming months; we are expecting containment. However, if these start to drift lower in response to a low headline, then we'll take note. But in the meantime we're backing the growth outlook to remain robust enough to keep the medium-term outlook for inflation slowly grinding higher.

The Governor's annual speech to the Canterbury Employers' Chamber of Commerce on Wednesday will no doubt be a sifting of the tea leaves. The speech is titled "The Global Economy, New Zealand's Economic Outlook, and the Policy Targets Agreement" so it will clearly discuss issues relevant to monetary policy. We suspect he will reinforce the flexibility of the policy targets framework, which is unsurprising with headline inflation below the band; that core inflation is more of a focus than low headline inflation; that inflation expectations are critical and the current policy framework of price stability has served the economy well. Therefore, while no doubt reiterating the easing bias the RBNZ highlighted this week, we suspect that it will again point to a central bank that while open to the idea of possibly having to ease again, is not close to pulling that trigger yet. Assistant Governor McDermott and the Head of Prudential Supervision Fiennes also speak this week, although we suspect their speeches will be less market relevant.

We expect the Q4 labour market figures to have a far more positive tone than what was the case in Q3 (our full preview is on page 5). In the September quarter, employment contracted for the first time in three years, the unemployment rate rose back to 6.0% and wage growth was again soft. In many ways this weakness was consistent with the earlier softness in economic activity experienced over the first half of the year. The labour market is generally a lagging indicator after all. However, we believe this softness will prove transitory, with employment in particular expected to rebound solidly from the Q3 dip, in line with more timely labour demand indicators (hiring intentions, job ads) and the recovery in economic momentum.

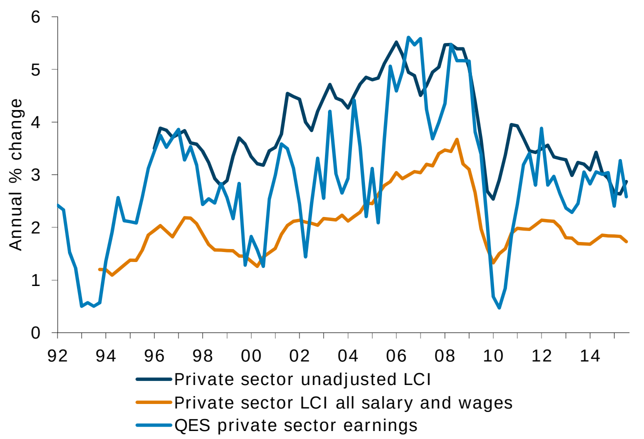
FIGURE 1. UNEMPLOYMENT AND PARTICIPATION RATES



Source: ANZ, Statistics NZ

We are picking annual private sector wages (based on the LCI measure) to hold at 1.7% (0.5% q/q) and such an outcome certainly wouldn't ring alarm bells either way. But we will be on the look-out for any hints of a turn given recent anecdotes and some data pointing to labour becoming a little more difficult to find. In particular we will be focusing on distributional wage changes as well as the unadjusted LCI (more of a true wage inflation measure rather than unit labour cost measure) and using regional and sectoral elements to help assess this.

FIGURE 2. WAGE INFLATION



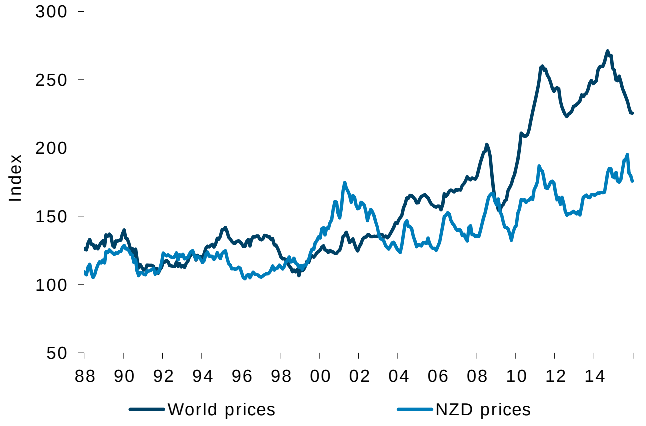
Source: ANZ, Statistics NZ

Non-dairy commodity prices have been coming under pressure. Within our Commodity Price Index,

ECONOMIC OVERVIEW

non-dairy prices have fallen for eight consecutive months (and in 13 of the past 14) to be down 17% from the peak. Weaker meat prices have been a big part of this story. While a lower NZD has provided some offset, NZD prices are still down 10% over the past three months alone, highlighting the clear direction of risks for national income earning potential. Together with the likes of credit markets and the cost of global funding, local export prices remain high on our list of factors we are watching to assess risks to the New Zealand economy and current trends leave us mindful.

FIGURE 3. NON-DAIRY EXPORT COMMODITY PRICES



Source: ANZ

The short-term outlook for dairy prices, especially milk powders remains challenging. NZX futures are pointing to another small fall in auction prices this week (GDT-TWI -3% & WMP by a similar amount), but the risks are we see a larger decline. The main pressure is coming from seasonal dynamics, an improved production outlook for New Zealand and continued milk supply growth offshore. As it's the first auction of the month there is also increased auction volumes, particularly for near-term delivery. With buyers short-term needs seemingly well covered we see potential for larger falls.

Europe continues to be the focal point of supply growth with volumes up 2.2%, or 3.2 million tonnes over the past year. To give this some context it is equivalent to 15% of New Zealand's milk supply. Much of the excess continues to be turned into skim milk powder (+8.6%) butter (+4.3%) and cream (+3.4%). Prices are currently below intervention levels for SMP. With the start of the New Year intervention levels are reset meaning 100,000t (~7% of annual production) of excess product will be soaked up. However, this is unlikely to improve prices with the seasonal uptick in milk supply set to continue to create excess product. There is some emerging evidence of processing capacity constraints and further farm-gate price reductions in key areas, but more of the latter is needed to slow milk supply.

Elsewhere US supply has been stronger than anticipated and improved seasonal conditions, as well as low grain prices are raising the prospect of more SMP from California. Closer to home seasonal conditions have improved implying more milk than earlier anticipated too. It remains to be seen what this will be turned into and through which channel it will be sold. Increasing GDT auction volumes would likely apply additional pressure given buyers short-term needs seem fairly well covered. **On a more positive note Chinese milk powder imports pick-up at the end of 2015 for the tariff free window.** Seasonally higher milk supply within China will limit short-term import demand, but some normalisation appears to have taken place. Combined with steady import demand elsewhere it highlights a slightly better backdrop for later in the year. But much will depend on how the supply environment evolves.

The latest round of milk price forecasts from Fonterra, Synlait, Open Country Dairy and Westland imply fairly stable pricing into the end of the year. Thus if GDT prices do fall further it will place more pressure on these. **At this early stage we hold a milk price forecast of $5.50-$5.75/kg MS for 2016/17.** This assumes a lower currency (in the mid-to-low NZD/USD 0.60's) and a modest improvement in international prices (i.e. WMP to mid-$2,000/t). **More short-term pressure means opening forecasts in May could well be a lot lower than this**, which will reduce the advance rate extending cash-flow pressures.

LOCAL DATA

Government Financial Statements – Nov. An OBEGAL deficit of $1.6 billion was recorded, $0.4 billion larger than HYEFU forecasts.

BNZ Business NZ PSI – Dec. The headline index eased 0.9pts to 58.9.

RBNZ OCR Review. The OCR was left unchanged at 2.5%, although the Bank stated that "Some further policy easing may be required over the coming year to ensure that future average inflation settles near the middle of the target range."

Overseas Merchandise Trade – Dec. A $53m deficit was experienced, with the deficit at $253m in seasonally adjusted terms.

Building Consents Issued – Dec. Total dwelling consents rose 2.3% m/m, with non-residential consents values at $529m sa.

RBNZ Credit Aggregates – Dec. Total private sector credit rose 0.3% m/m (7.0% y/y).

International Travel & Migration – Dec. Net migration inflow of 5.5k in December, down from rates seen in November and October, but still very strong.

DATA PREVIEW

SUMMARY

We expect a decent amount of recoil in the Q4 HLFS. After a weak Q3, employment is expected to have ended the year on a firmer footing, in line with the positive tone from more timely labour demand indicators. The participation rate is also expected to have lifted modestly, which will contribute to the unemployment rate ticking up to 6.1%. However, we see plenty of risks around the latter, and it is quite possible the unemployment rate has in fact already peaked for this cycle. Wage growth will again be contained at a low level, but we will be looking for early hints of a turn given tentative evidence of emerging capacity constraints.

LABOUR MARKET DATA – 2015Q4

LCI / QES / HLFS: Wednesday 3 Feb, 10:45am

December 2015 Quarter Expectations		
	ANZ	Consensus
HLFS employment growth	0.8% q/q 1.2% y/y	0.8% q/q 1.1% y/y
HLFS unemployment rate (sa)	6.1%	6.1%
HLFS participation rate (sa)	68.9%	68.9%
LCI salary and ordinary time wage rates (private sector)	0.5% q/q 1.7% y/y	0.5% q/q 1.7% y/y
QES salary and wage ordinary time (private sector)	0.4% q/q 2.7% y/y	0.5% q/q 2.8% y/y
QES filled jobs	0.5% q/q 2.2% y/y	--

RECOIL

Employment should have ended the year on a firmer footing, recoiling from the weak Q3. "Official" HLFS employment contracted for the first time in three years in Q3, dropping 0.4% q/q. In many ways, this implied weakening in labour demand was consistent with the earlier softness seen in economic activity over the first half of the year, although it still came as a surprise nonetheless (generating a reasonable market reaction on the day). That said, we felt at the time the fall overstated weakness in the labour market given that alternative (QES) measures of employment held up and hours-based measures also posted gains. And with more timely measures of labour demand improving solidly over Q4, this drop in employment looks as though it was just a transitory event. Job ads have risen in excess of 1% m/m for four consecutive months and firms' hiring intentions from the QSBO and *Business Outlook* both lifted solidly over the quarter to be back above historical averages.

We have pencilled in a 0.8% q/q increase in HLFS employment. While it can often be a fruitless affair attempting to "pick" quarterly movements in employment given the inherent volatility involved with this data (and with labour market data the world over), we wouldn't rule out an even stronger outcome. The QES measure of filled jobs is also expected to have increased over the quarter (following a 0.7% q/q lift in Q3), and a further lift in hours-based measures would be consistent with other indicators pointing to reasonable economic momentum in Q4.

Labour supply growth is also expected to record a degree of recoil in Q4 from the 0.3% Q3 drop. Strong Q4 growth in the working age population and recoil from the 0.7ppt Q3 drop in the participation rate should see labour force gains outpace employment ones. Employment growth movements have historically given a pretty useful steer on directional movements in the participation rate (providing some evidence of the discouraged/ encouraged worked effect). Since 2000, when employment growth has risen (fallen), the participation rate has increased (decreased) over the same quarter 73% of the time. As such, we expect the participation rate to partly reverse Q3 weakness, rising to 68.9%.

This combination should see the unemployment rate tick up to 6.1%, although we see plenty of risks around this. In fact, it is quite possible that the unemployment rate has already peaked for this cycle. If not, the ongoing increase in labour demand on the back of an expected acceleration in domestic activity growth over 2016 (which should be enough to absorb new entrants into the labour market), means that a peak is close at hand in the absence of very strong rates of net immigration continuing.

Wage growth should remain low, with a 0.5% q/q (1.7% y/y) lift in private sector LCI wage inflation expected. Part of this low wage backdrop reflects the fact that consumer price inflation itself has remained low, and so cost-of-living-adjustments have been modest. But it also reflects global forces and ongoing spare capacity, with the unemployment rate sitting above most estimates of the NAIRU. However, we will be looking for evidence of stabilisation and perhaps even a turn. Anecdotes point to skill shortages in construction and some services sectors. The QSBO also reported labour became modestly more difficult to find over the quarter. When it comes to wage negotiations, bargaining power remains in the hands of employers at present, but we will be on the lookout for any evidence the pendulum is shifting.

MARKET IMPLICATIONS

Labour market figures are volatile and hence there is the possibility of a decent market reaction. Overall, we expect the figures to be consistent with an 'on-hold' stance from the RBNZ, but with its explicit reference to watching the emerging economic data closely, any surprises will be jumped on.

INTEREST RATE STRATEGY

SUMMARY

Local short end interest rates remain biased down in the wake of the Bank of Japan's surprise rate cut and the RBNZ's move to a more explicit easing bias. We continue to favour receiving short end rates on any dips. While further OCR cuts may be required this year not all of the criteria in our watch-list justifying cuts have yet been ticked, so playing from the long side requires patience. Long end interest rates have broken lower, going against the grain of the consensus view of higher yields. We expect a further period of consolidation in long end yields as markets digest the tone of global data and events.

THEMES

- The focus moves to the data after the Fed and RBNZ stay on message, while highlighting downside risks to the inflation outlook.
- Rates fall as the RBNZ adopts a more explicit easing bias and signals the potential for a lower OCR over 2016. But the Bank has also tried to deflect attention from headline inflation, explicitly saying it is comfortable with where core inflation sits. That suggests they're in no hurry to ease.
- The global scene remains paramount, with the Fed taking a more cautious stance and the Bank of Japan delivering another cut. These moves have surprised markets and challenged the consensus view of higher bond yields over 2016.
- Local long-end interest rates have outperformed global peers, but spread compression is unlikely to be enough to prevent outright yields from rising.

PREFERRED STRATEGIES – INVESTORS

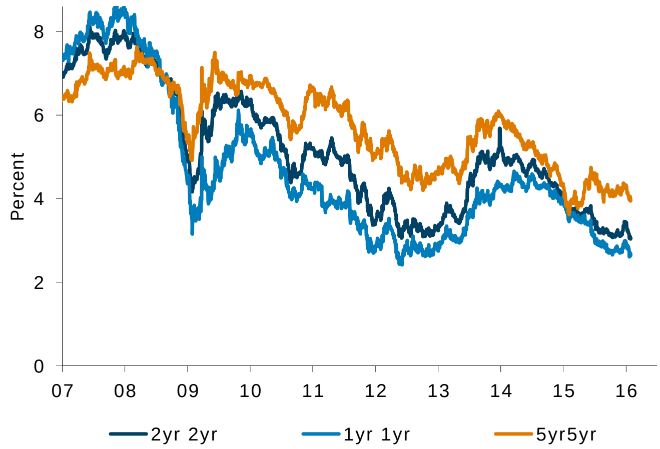
KEY VIEWS – FOR INVESTORS		
GAUGE	**DIRECTION**	**COMMENT**
Duration	Neutral	Yield lows likely behind us. More about spreads and curves.
2s10s Curve	Steeper	Flattening pressure likely to remain until US long-term rates find a floor.
Geographic 10yr spread	Narrower	Divergent policy argues for further narrowing.
Swap spreads	Neutral	Stabilising, but still low.

BACK TO THE DATA

Interest rate markets have remained volatile, with the focus on a number of key drivers – policy decisions, oil prices, equity markets and weakness in emerging market economies. Equity markets ended the week slightly up, oil prices have bounced off earlier lows, but no clear trends are evident.

Both the FOMC and RBNZ left rates on hold and retained a data-dependent focus and crucially, both acknowledged they were closely monitoring global developments. The RBNZ emphasised the importance of forthcoming data, but delivered a more explicit easing bias, flagging the potential for a lower OCR over 2016 given concerns over the inflation outlook. The RBNZ stopped short of setting the scene for a March cut, with market pricing remaining close to 50/50 in March after the January *OCR Review,* the onus remains on the tone of the data to determine the timing of the RBNZ's next move. The curve has marginally steepened for shorter-terms, but has flattened for longer maturities as the low for longer rates message sinks in.

FIGURE 1: NZ FORWARD RATES



Source: ANZ, Bloomberg

In contrast to market expectations for OCR cuts, our expectation is for a period of OCR stability, followed by an eventual rise in interest rates. **This hinges upon our expectation that local data will continue to hold up, with the economy maintaining H2 2015 momentum into 2016.** December net migration was a boomer, with the tourism sector remaining a standout performer. Wednesday's Q4 labour market activity data is also expected to reflect the solidity in the domestic backdrop and an expected stabilisation in wage inflation should appease concerns over the core inflation outlook. As such, there is potential for near-term rates to back up as expectations of near-term rate cuts are scaled back. By contrast, weak prints for wage inflation and a sharper jump in the unemployment rate would underpin recent rallies.

We see the catalyst behind potential 2016 OCR cuts as being global and we are still watching our "C's" (China, currency, commodity prices, core inflation, cost of funds, credit growth and confidence). Some of these are worrying and signal a lower OCR is needed. Lower export commodity prices have not been fully buffered by a lower NZD and news from the dairy sector is not good. NZX futures do not point to a rebound in dairy prices at this week's

INTEREST RATE STRATEGY

auction. Implied bank funding costs are on the rise reflecting tightening liquidity conditions in global credit markets and structural changes to rules governing the types of assets banks and fund managers can own, as well as changes to liquidity and capital adequacy rules. As yet, there have been few signs of movement in retail deposit and mortgage rates (up) that would strongly suggest an OCR response (down).

US data has had a fairly lacklustre start to the year making the global scene tense and setting the direction for local rates. Although market expectations are for January non-farm payrolls (released this Friday night) to be fairly solid at +190k. **But it's the changing G3 monetary policy scene that is the real talking point**, with the ECB poised to cut next month (we expect the deposit rate to be cut a further 10bps to -0.40%) and the Bank of Japan surprising markets with a cut in one of its key interest rates into negative territory on Friday.

Stable Australian CPI inflation and an already low cash rate suggest no imminent need for RBA cuts, although a sub-trend growth outlook from the unwinding of the mining investment boom, low commodity export prices and the slowing contribution to growth for housing should keep the odds tilted to rate cuts. We expect 50bps of rate cuts by mid-2016.

The key question for markets now is; will US bond yields (which are so critical to the direction of New Zealand interest rates) rise, as forecast by ourselves and the consensus? We have not changed our forecasts, but it is clear that the risk profile is changing on the back of inflation undershoots across the globe, China growth concerns, and market jitters over the sustainability of global debt levels. The tone of markets certainly seems to be a long way from where it was in November, when the prospect of higher bond yields was almost a foregone conclusion with the US Federal Reserve back in tightening mode. **As such, we think it makes sense to keep an open mind**, and consider what may happen if the Fed is forced to slow (or dare we say it, abandon) plans to continue hiking in 2016.

New Zealand interest rates remain attractive from a global perspective (10 year bond yields are at pie in the sky levels compared to European interest rates, and are sporting a 3% handle at a time when US yields have slipped back below 2%). We favour further spread compression too. Granted, this tends to be a harder slog when US yields are falling, but if that's being driven by global malaise, that is likely to ultimately be a challenge for the RBNZ to confront too, which should help support local bonds. We also see value in the mid part of the curve, with the yield curve implying a premature turn in the interest rate cycle.

PREFERRED STRATEGIES – BORROWERS

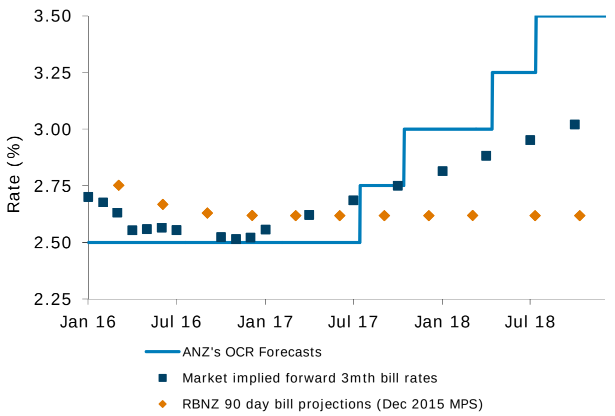
New Zealand long-term rates have taken part in the global rally. While our forecasts have interest rates rising gradually, this view is being challenged at the moment by markets. While it is certainly difficult to argue with the value on offer (from a historic perspective) with the 10 year swap rate back at a record low, the question we need to explore is whether we can reliably expect them to rise any time soon. Accordingly, **we strongly favour employing an option-based strategy when it comes to new hedging**. We also note that, floating rates are also historically cheap, and risks to short-term rates are still biased to the downside, making the decision to take on more expensive term cover an even more difficult one (hence our preference for optionality).

KEY VIEWS – FOR BORROWERS		
GAUGE	VIEW	COMMENT
Hedge ratio	Majority hedged	Options preferred so as to maintain exposure to lower floating interest rates.
Value	Cheap	Low, but the catalyst for an immediate rise is absent.
Uncertainty	Elevated	The key reason for caution.

MARKET EXPECTATIONS

Market expectations remain biased towards a lower OCR. A 25bp March cut about 40% priced in, a 25bp cut fully priced in by August, and 29bps of cuts are priced in by the end of the year.[1] While our core view is for a period of OCR stability, followed by 2017 normalisation hikes, commodity price trends, China, funding costs, a spluttering global economy and benign outlook for inflation keep risks skewed lower.

FIGURE 3. ANZ OCR FORECAST VERSUS MARKET-IMPLIED FORWARD 3MTH BILL RATES AND RBNZ 90-DAY BILL PROJECTIONS



Source: ANZ, Bloomberg

[1] From July, the new schedule for OCR decisions is introduced, with four *MPS* and associated OCR announcements each year (in February, May, August and November) and three intervening OCR Reviews (in March, June and September).

CURRENCY STRATEGY

SUMMARY

We find it difficult to articulate a clear weakening trend for the NZD over the near-term given solid domestic nuances (dairy aside) and global central banks stepping up to soothe sentiment. NZD/AUD is under pressure but is now starting to offer value when we eye the 12 month picture between NZ and Australia growth wise.

TABLE 1: KEY VIEWS			
CROSS	**WEEK**	**MONTH**	**YEAR**
NZD/USD	↔	FOMC and RBNZ on opposite biases	Volatility will remain high.
NZD/AUD	↔	Curves look fairly priced.	Above long-run averages
NZD/EUR	↔/↑	'Fear' easing.	EUR capped by ECB
NZD/GBP	↔/↓	GBP oversold	GBP resurgence
NZD/JPY	↔/↑	'Fear' easing.	Yen weakness

THEMES AND RISKS

- Activity indicators front and centre; we expect a better tone from the US this week. China is expected to continue to introduce measures to calm markets, ahead of next week's Lunar New Year holidays. But we're coy on quick fixes.
- Commodity price action still looks poor despite oil's rebound. Dairy prices to weaken this week.
- The NZ economic story will be "differentiated" once again this week, with labour demand to show recovery. With the same in the US, it's a tug-of-war for the NZD/USD in the absence of direction from China and risk.
- Central banks have stepped up in response to market unease. The initial response has been positive. We are wary of the ability to kick on given structural headwinds.

TABLE 2: KEY UPCOMING EVENT RISK			
	EVENT	**WHEN (NZDT)**	**IMPACT RISK**
CNY	January PMIs	Mon 14:00	NZD/CNY ↑
EUR	Markit (mfg) PMIs	Mon 22:00	NZD/EUR ↓
GBP	Markit (mfg) PMIs	Mon 22:30	NZD/GBP ↓
USD	ISM	Tue 04:00	NZD/USD ↓
USD	Fed Fischer	Tue 07:00	NZD/USD ↔/↓
NZD	ANZ Commodity prices	Tue 13:00	NZD
AUD	RBA	Tue 16:30	NZD/AUD ↔/↓
NZD	GDT auction	Wed am	NZD ↔/↓
NZD	Q4 labour market stats	Wed 10:45	NZD ↔/↑
NZD	Wheeler speech	Wed 12:45	NZD ↔/↑
USD	ISM (n-mfg)	Thu 04:00	NZD/USD ↓
NZD	RBNZ McDermott	Thu 11:30	NZD ↔
GBP	BoE, BoE inflation	Fri 01:00	NZD/GBP ↔/↓
AUD	Retail sales	Fri 13:30	NZD/AUD ↓
AUD	RBA SOMP	Fri 13:30	NZD/AUD ↔/↓
USD	Non-farm payrolls	Sat 02:30	NZD/USD ↓
CAD	Employment	Fri 21:00	NZD/EUR ↓
AUD	NAB B/C	Tue 13:30	NZD/AUD ↑

EXPORTERS' STRATEGY

With NZD/USD near the bottom of its range, and risk sentiment settling some hedging seems prudent. However NZD/AUD exporters may get better levels.

IMPORTERS' STRATEGY

Importers will have to wait until market fear settles to again get a chance at better levels.

DATA PULSE

The RBNZ sent NZD lower, by moving to an explicit easing bias, and increasing the rhetoric against the currency. The rest of New Zealand data continues to perform well with the PSI remaining strong, exports picking up in the trade release and building permits all solid.

The FOMC met expectations with a message that acknowledged global risks, but wasn't materially different to the 'lift-off' message. US data was mixed. Consumer confidence rose. The Richmond Fed (mfg) survey eased. Both Markit Services PMI and Durable Goods were weaker than expected.

AUD was supported with Q4 CPI a tenth above expectations. However the level remains near the bottom of the RBA target range, meaning CPI isn't an impediment to RBA easing should activity deteriorate.

The Bank of Japan delivered a surprise easing, sending shock waves through markets as USD/JPY jumped around 2 cents. The NZD initially benefitted, but has since pared gains. Broadly speaking, lower global interest rates should be NZD supportive.

GBP underperformance was reaffirmed as Governor Carney put the BoE firmly on hold. The CBI trend series was mildly optimistic, and while Q4 GDP softened markets were sanguine.

TABLE 3: NZD VS AUD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔	FV is above long-run averages.
Yield	↔	Curves look fair.
Commodities	↔	Commodity price pressure.
Data	↔/↑	NZ data consistently solid.
Techs	↔	Mid to lower range.
Sentiment	↑	AUD has a higher beta to China.
Other	↑	NZ risks less skewed than AUD.
On balance	↔	**Starting to look cheap**

TABLE 4: NZD VS USD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔	Closer to fair value.
Yield	↔/↑	Yield advantage still present.
Commodities	↓	Commodity markets warning.
Risk aversion	↔/↑	Already with a risk 'discount'.
Data	↔/↑	US data is softer.
Techs	↔/↑	Price action has held well
Other	↓	China remains a key downside.
On balance	↔	**Hard to get excited at current levels either way.**

CURRENCY STRATEGY

TECHNICAL OUTLOOK

FIGURE 1. NZD/USD DAILY CANDLES WITH RSI & MA

Despite multiple attempts lower, NZD/USD is forming a nice consolidation pattern. Oversold indicators have been resolved, and this cross looks free to move in either direction. We would suggest following a break of the 0.6350 support or the 0.6580 resistance. Downside moves have the greater potential scope, as a break of resistance would encounter further resistance in the low 0.67's and form part of a larger consolidation pattern.

FIGURE 2. NZD/AUD DAILY CANDLES WITH RSI & MA

The pivot for this cross is around 0.9090. A sustained break through this suggests this cross will trade in the 0.88-0.91 range for a while. We would see trading at the lower end of this range as opportunity for buying NZD/AUD.

TABLE 5: KEY TECHNICAL ZONES

CROSS	SUPPORT	RESISTANCE
NZD/USD	0.6330 – 0.6350	0.6780 – 0.6820
NZD/AUD	0.9000 – 0.9040	0.9480 – 0.9520
NZD/EUR	0.5800 – 0.5850 0.5550 – 0.5600	0.6280 – 0.6330
NZD/GBP	0.4400 – 0.4440	0.4650 – 0.4680
NZD/JPY	73.80 – 74.20	79.50 – 80.00 82.40 – 83.00

POSITIONING

Speculative short positions in NZD have increased over the past week, lifting the risk of a corrective NZD/USD spike higher, especially in the wake of the Bank of Japan easing. USD positioning is little changed.

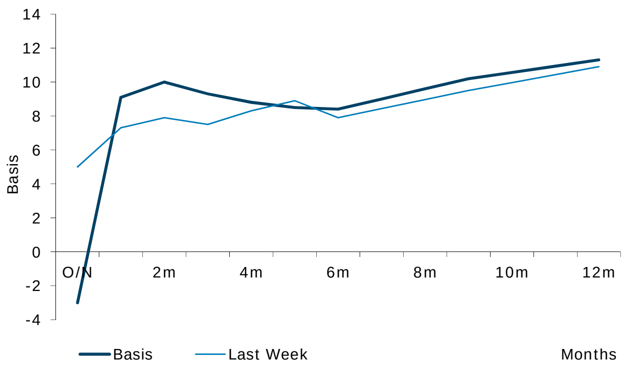
GLOBAL VIEWS

As we await the NZ Q4 labour market statistics, it is worth noting global labour markets are a key indicator for financial markets as central bankers are watching for signs of 'traditional' capacity constraints.

The inability of 'full employment' in the UK and US to generate wage inflation is a puzzle for global central bankers who's models expect this to create a pass through into broader inflation. This makes wage inflation metrics the world over a key indicator for currencies. Countries that are able to generate wage tension will have appreciating currencies. This is one of the key measures we are watching for acceleration in the USD and GBP, and external markets will be applying the same logic to the NZD and its labour market.

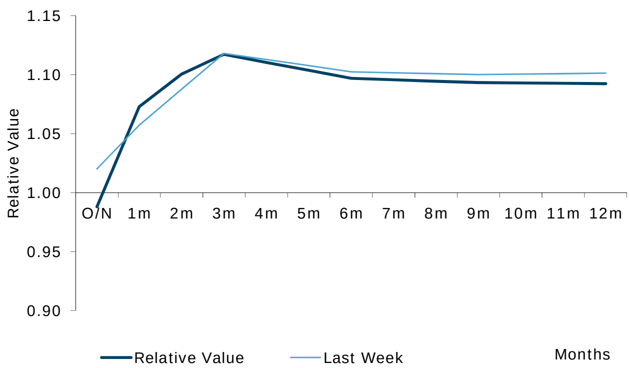
FORWARDS: CARRY AND BASIS

FIGURE 3. NZD/USD SHORT BASIS CURVE



A lack of interest in the NZ forwards market has pushed cash below OCR. The O/N level does tell us that markets aren't currently running short-term NZD positions at present. Basis has broadly widened and receiving two and three month basis at a 10bp premium remains attractive.

FIGURE 4. RELATIVE ATTRACTION OF THE FWD CURVE



Source: ANZ, Bloomberg, Reuters

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
1-Feb	AU	TD Securities Inflation MoM - Jan	--	0.2%	12:30
	CH	Manufacturing PMI - Jan	49.6	49.7	14:00
	CH	Non-manufacturing PMI - Jan	--	54.4	14:00
	CH	Caixin PMI Mfg - Jan	48.1	48.2	14:45
	AU	Commodity Index YoY - Jan	--	-23.3%	18:30
	GE	Markit/BME Manufacturing PMI - Jan F	52.1	52.1	21:55
	EC	Markit Manufacturing PMI - Jan F	52.3	52.3	22:00
	UK	Net Consumer Credit - Dec	£1.3B	£1.5B	22:30
	UK	Net Lending Sec. on Dwellings - Dec	£3.7B	£3.9B	22:30
	UK	Mortgage Approvals - Dec	69.6K	70.4K	22:30
	UK	Money Supply M4 MoM - Dec	--	0.4%	22:30
	UK	M4 Money Supply YoY - Dec	--	0.5%	22:30
	UK	Markit PMI Manufacturing SA - Jan	51.6	51.9	22:30
2-Feb	US	Personal Income - Dec	0.2%	0.3%	02:30
	US	Personal Spending - Dec	0.1%	0.3%	02:30
	US	Real Personal Spending - Dec	0.2%	0.3%	02:30
	US	PCE Deflator MoM - Dec	0.0%	0.0%	02:30
	US	PCE Deflator YoY - Dec	0.6%	0.4%	02:30
	US	PCE Core MoM - Dec	0.1%	0.1%	02:30
	US	PCE Core YoY - Dec	1.4%	1.3%	02:30
	US	Markit Manufacturing PMI - Jan F	52.7	52.7	03:45
	US	ISM Manufacturing - Jan	48.5	48.0	04:00
	US	ISM Prices Paid - Jan	35.0	33.5	04:00
	US	ISM New Orders - Jan	--	49.2	04:00
	US	Construction Spending MoM - Dec	0.6%	-0.4%	04:00
	AU	ANZ-RM Consumer Confidence Index - 31-Jan	--	112.2	11:30
	NZ	ANZ Commodity Price - Jan	--	-1.8%	13:00
	AU	RBA Cash Rate Target - Feb	2.00%	2.00%	16:30
	GE	Unemployment Change (000's) - Jan	-8K	-14K	21:55
	GE	Unemployment Claims Rate SA - Jan	6.30%	6.30%	21:55
	UK	Markit/CIPS Construction PMI - Jan	57.5	57.8	22:30
	EC	PPI MoM - Dec	-0.6%	-0.2%	23:00
	EC	PPI YoY - Dec	-2.8%	-3.2%	23:00
	EC	Unemployment Rate - Dec	10.5%	10.5%	23:00
3-Feb	US	ISM New York - Jan	--	62.0	03:45
	US	IBD/TIPP Economic Optimism - Feb	47.7	47.3	04:00
	NZ	Unemployment Rate - Q4	6.1%	6.0%	10:45
	NZ	Employment Change QoQ - Q4	0.8%	-0.4%	10:45
	NZ	Employment Change YoY - Q4	1.1%	1.5%	10:45
	NZ	Participation Rate - Q4	68.9%	68.6%	10:45
	NZ	Pvt Wages Ex Overtime QoQ - Q4	0.5%	0.4%	10:45
	NZ	Pvt Wages Inc Overtime QoQ - Q4	0.5%	0.4%	10:45
	NZ	Average Hourly Earnings QoQ - Q4	0.5%	0.9%	10:45
	AU	AiG Perf of Services Index - Jan	--	46.3	11:30
	AU	Trade Balance - Dec	-2450M	-2906M	13:30
	AU	Building Approvals MoM - Dec	4.5%	-12.7%	13:30
	AU	Building Approvals YoY - Dec	-7.2%	-8.4%	13:30
	CH	Caixin PMI Services - Jan	--	50.2	14:45

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
3-Feb	CH	Caixin PMI Composite - Jan	--	49.4	14:45
	GE	Markit Services PMI - Jan F	55.4	55.4	21:55
	GE	Markit/BME Composite PMI - Jan F	54.5	54.5	21:55
	EC	Markit Services PMI - Jan F	53.6	53.6	22:00
	EC	Markit Composite PMI - Jan F	53.5	53.5	22:00
	UK	Markit/CIPS Services PMI - Jan	55.4	55.5	22:30
	UK	Markit/CIPS Composite PMI - Jan	55	55.3	22:30
	EC	Retail Sales MoM - Dec	0.30%	-0.30%	23:00
	EC	Retail Sales YoY - Dec	1.50%	1.40%	23:00
4-Feb	US	MBA Mortgage Applications - 29-Jan	--	8.80%	01:00
	US	ADP Employment Change - Jan	190K	257K	02:15
	US	Markit Services PMI - Jan F	53.7	53.7	03:45
	US	Markit Composite PMI - Jan F	--	53.7	03:45
	US	ISM Non-Manf. Composite - Jan	55.2	55.8	04:00
	AU	NAB Business Confidence - Q4	--	0	13:30
	GE	Markit Construction PMI - Jan	--	55.5	21:30
	EC	ECB Publishes Economic Bulletin -	--	--	22:00
	GE	Markit Germany Retail PMI - Jan	--	50.5	22:10
	EC	Markit Eurozone Retail PMI - Jan	--	49	22:10
5-Feb	UK	Bank of England Bank Rate - Feb	0.50%	0.50%	01:00
	UK	BoE Asset Purchase Target - Feb	£375B	£375B	01:00
	UK	Bank of England Inflation Report -	--	--	01:00
	US	Nonfarm Productivity - Q4 P	-2.0%	2.2%	02:30
	US	Initial Jobless Claims - 30-Jan	280K	278K	02:30
	US	Unit Labor Costs - Q4 P	4.00%	1.80%	02:30
	US	Continuing Claims - 23-Jan	2240K	2268K	02:30
	US	Factory Orders - Dec	-2.8%	-0.2%	04:00
	US	Durable Goods Orders - Dec F	--	-5.1%	04:00
	US	Durables Ex Transportation - Dec F	--	-1.2%	04:00
	US	Cap Goods Orders Nondef Ex Air - Dec F	--	-4.3%	04:00
	US	Cap Goods Ship Nondef Ex Air - Dec F	--	-0.2%	04:00
	AU	AiG Perf of Construction Index - Jan	--	46.8	11:30
	AU	Retail Sales MoM - Dec	0.40%	0.40%	13:30
	AU	Retail Sales Ex Inflation QoQ - Q4	0.90%	0.60%	13:30
	AU	RBA Statement on Monetary Policy -	--	--	13:30
	AU	Foreign Reserves - Jan	--	A$67.4B	18:30
	GE	Factory Orders MoM - Dec	-0.5%	1.5%	20:00
	GE	Factory Orders WDA YoY - Dec	-1.4%	2.1%	20:00
	UK	Halifax House Prices MoM - Jan	0.1%	1.7%	02/11
	UK	Halifax House Price 3Mths/Year - Jan	9.0%	9.5%	02/11
6-Feb	US	Trade Balance - Dec	-$43.20B	-$42.37B	02:30
	US	Change in Nonfarm Payrolls - Jan	190K	292K	02:30
	US	Unemployment Rate - Jan	5.0%	5.0%	02:30
	US	Average Hourly Earnings MoM - Jan	0.3%	0.0%	02:30
	US	Average Hourly Earnings YoY - Jan	2.2%	2.5%	02:30
	US	Consumer Credit - Dec	$16.00B	$13.95B	09:00

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.
Source: Dow Jones, Reuters, Bloomberg, ANZ Bank New Zealand Limited. All $ values in local currency.
Note: All surveys are preliminary and subject to change

LOCAL DATA WATCH

Domestic activity is re-accelerating after slowing below trend. Low domestic inflation will keep future OCR moves biased to the downside, although our base case remains an extended period of OCR stability.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 2 Feb (1:00pm)	ANZ Commodity Price Index – Jan	--	--
Wed 3 Feb (early am)	GlobalDairyTrade Auction	Worrying	The fundamental backdrop is not conducive to a meaningful recovery in prices.
Wed 3 Feb (10:45am)	Labour Market Statistics – Q4	Recoil	Employment should bounce from the weak Q3, and while the unemployment rate may lift slightly, a peak does appear close at hand. Wage growth will remain modest.
Tue 9 Feb (10:00am)	ANZ Truckometer – Jan	--	--
Tue 9 Feb (12:00pm)	QV House Prices – Jan	Peaked	Policy changes and affordability constraints have cooled the Auckland market, and with it the nationwide figures.
Wed 10 Feb (10:45am)	Electronic Card Transactions – Jan	Bounce back	December was soft. But strong population growth and low mortgage rates should continue to support spending.
Wed 10 Feb (1:00pm)	ANZ Monthly Inflation Gauge – Jan	--	--
10-15 Feb	REINZ Housing Statistics – Jan	Regional divergence	Monthly numbers are likely to be volatile, but we expect to see decent volume and price growth in non-Auckland regions.
Thu 11 Feb (10:30am)	Business NZ PMI – Jan	Watching the globe	Manufacturing sentiment has held up well, although it will be interesting to see if global market turmoil has impacted.
Fri 12 Feb (10:45am)	Food Price Index – Jan	Seasonal lift	The global commodity price rout is weighing on local food price inflation, although we expect a seasonal lift in January.
Mon 15 Feb (10:30am)	Business NZ PSI – Jan	Outperformance	The services sector is one of the outperformers of this current expansion. This data should be consistent with that.
Tue 16 Feb (10:45am)	Retail Trade Survey – Q4	Respectable	Retail price deflation should support volumes, with a respectable rate of growth evident.
Tue 16 Feb (3:00pm)	RBNZ Survey of Expectations – Q1	2-year dip	Given petrol price falls, the two-year-ahead measure of inflation expectations may have eased a touch.
Wed 17 Feb (early am)	GlobalDairyTrade Auction	Worrying	The fundamental backdrop is not conducive to a meaningful recovery in prices.
Thu 18 Feb (10:00am)	ANZ Job Ads – Jan	--	--
Thu 18 Feb (10:45am)	PPI – 4Q	Down	Some impact of the lower NZD and strong wholesale electricity prices, but otherwise consistent with sedate price pressures.
Thu 18 Feb (1:00pm)	ANZ Roy Morgan Consumer Confidence – Feb	--	--
Thu 25 Feb (10:45am)	International Travel & Migration – Jan	Still strong	It is hard to think these figures will be anything other than strong for what they signal for population growth and tourism.
Fri 26 Feb (10:45am)	Overseas Merchandise Trade – Jan	Normal service resumes	Exports were supported by strong dairy export volumes in December. We believe that was only temporary, with a deteriorating trade outlook still expected.
On balance		**Data watch**	**Improvement is evident, but with risks. Inflation remains low.**

KEY FORECASTS AND RATES

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
GDP (% qoq)	0.9	**0.5**	**0.5**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.6**	**0.6**
GDP (% yoy)	2.3	**1.9**	**2.2**	**2.6**	**2.4**	**2.6**	**2.8**	**2.8**	**2.7**	**2.7**
CPI (% qoq)	0.3	-0.5	**0.2**	**0.4**	**0.4**	**0.0**	**0.6**	**0.4**	**0.7**	**0.3**
CPI (% yoy)	0.4	0.1	**0.4**	**0.4**	**0.5**	**1.0**	**1.4**	**1.4**	**1.7**	**1.9**
Employment (% qoq)	-0.4	**0.8**	**0.6**	**0.5**	**0.5**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	1.5	**1.2**	**1.1**	**1.5**	**2.4**	**2.1**	**1.9**	**1.8**	**1.7**	**1.7**
Unemployment Rate (% sa)	6.0	**6.1**	**6.2**	**6.1**	**6.0**	**5.9**	**5.8**	**5.7**	**5.6**	**5.5**
Current Account (% GDP)	-3.2	**-3.3**	**-3.6**	**-4.0**	**-4.5**	**-4.7**	**-4.8**	**-4.8**	**-4.8**	**-4.7**
Terms of Trade (% qoq)	-3.7	**-5.1**	**0.1**	**-2.4**	**-0.2**	**0.2**	**0.1**	**0.2**	**0.1**	**0.2**
Terms of Trade (% yoy)	-3.4	**-6.1**	**-7.2**	**-10.8**	**-7.6**	**-2.4**	**-2.4**	**0.2**	**0.6**	**0.6**

	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16
Retail ECT (% mom)	-0.6	1.2	0.5	0.4	0.5	0.9	-0.1	0.2	-0.2	--
Retail ECT (% yoy)	3.9	3.2	5.0	5.6	4.2	6.1	5.6	3.7	5.3	--
Credit Card Billings (% mom)	0.0	1.9	0.3	1.7	1.3	-1.9	1.7	0.6	-0.8	--
Credit Card Billings (% yoy)	7.2	7.3	6.7	9.7	10.4	7.3	7.8	8.4	7.4	--
Car Registrations (% mom)	-1.3	-0.3	5.3	0.6	-2.3	0.0	-1.4	-2.1	2.8	--
Car Registrations (% yoy)	11.2	6.8	11.2	10.7	7.8	5.0	3.8	1.3	2.4	--
Building Consents (% mom)	-0.5	1.0	-3.6	21.7	-6.9	-5.7	5.1	2.4	2.3	--
Building Consents (% yoy)	2.6	6.6	-3.8	21.9	12.0	17.1	14.4	8.0	17.3	--
REINZ House Price Index (% yoy)	9.3	11.8	14.8	14.9	17.3	20.1	14.1	12.5	12.6	--
Household Lending Growth (% mom)	0.5	0.6	0.6	0.7	0.6	0.7	0.7	0.6	0.6	--
Household Lending Growth (% yoy)	5.2	5.5	5.6	6.0	6.3	6.7	7.0	7.2	7.4	--
ANZ Roy Morgan Consumer Conf.	128.8	123.9	119.9	113.9	109.8	110.8	114.9	122.7	118.7	121.4
ANZ Business Confidence	30.2	15.7	-2.3	-15.3	-29.1	-18.9	10.5	14.6	23.0	--
ANZ Own Activity Outlook	41.3	32.6	23.6	19.0	12.2	16.7	23.7	32.0	34.4	--
Trade Balance ($m)	184	367	-182	-730	-1090	-1140	-904	-799	-53	--
Trade Bal ($m ann)	51298	50976	51371	51643	52446	52287	52102	52650	52530	--
ANZ World Commodity Price Index (% mom)	-7.4	-4.8	-3.1	-5.5	-5.3	5.6	7.1	-5.6	-1.8	--
ANZ World Comm. Price Index (% yoy)	-15.3	-18.0	-19.7	-22.1	-23.6	-18.2	-11.6	-15.3	-12.9	--
Net Migration (sa)	4820	5150	4930	5740	5510	5610	6210	6260	5510	--
Net Migration (ann)	56813	57822	58259	59639	60290	61234	62477	63659	64930	--
ANZ Heavy Traffic Index (% mom)	-0.1	-1.1	1.7	-0.1	-0.3	1.8	1.1	0.4	2.6	--
ANZ Light Traffic Index (% mom)	0.3	-0.7	0.9	-0.3	-1.2	2.7	-0.3	0.3	1.0	--

Figures in bold are forecasts. mom: Month-on-Month qoq: Quarter-on-Quarter yoy: Year-on-Year

KEY FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Nov-15	Dec-15	Today	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
NZD/USD	0.656	0.685	0.649	0.63	0.61	0.59	0.59	0.60	0.61	0.63
NZD/AUD	0.910	0.937	0.916	0.94	0.94	0.92	0.92	0.92	0.92	0.93
NZD/EUR	0.620	0.628	0.599	0.60	0.60	0.55	0.54	0.54	0.53	0.53
NZD/JPY	80.65	82.52	78.73	73.7	70.2	67.9	67.9	67.2	67.1	69.3
NZD/GBP	0.437	0.463	0.455	0.45	0.44	0.41	0.39	0.39	0.39	0.39
NZ$ TWI	71.5	73.7	71.4	69.7	68.4	65.3	64.6	64.8	64.9	65.8
INTEREST RATES	Nov-15	Dec-15	Today	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
NZ OCR	2.75	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.75
NZ 90 day bill	2.83	2.75	2.69	2.80	2.70	2.70	2.70	2.70	2.80	3.10
NZ 10-yr bond	3.54	3.57	3.20	3.80	3.80	3.80	3.90	3.90	3.90	3.90
US Fed funds	0.25	0.50	0.50	0.50	0.75	1.00	1.25	1.25	1.50	1.75
US 3-mth	0.42	0.61	0.61	0.83	1.08	1.33	1.33	1.33	1.33	1.33
AU Cash Rate	2.00	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50
AU 3-mth	2.27	2.38	2.29	2.10	2.30	2.40	2.40	2.40	2.40	2.40

	29 Dec	25 Jan	26 Jan	27 Jan	28 Jan	29 Jan
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.76	2.72	2.72	2.72	2.71	2.70
NZGB 12/17	2.77	2.50	2.50	2.53	2.54	2.53
NZGB 03/19	2.89	2.62	2.62	2.66	2.66	2.65
NZGB 04/23	3.58	3.25	3.25	3.27	3.26	3.25
NZGB 04/27	3.96	3.62	3.62	3.64	3.62	3.61
2 year swap	2.78	2.62	2.62	2.63	2.63	2.60
5 year swap	3.15	2.88	2.88	2.86	2.86	2.83
RBNZ TWI	73.8	71.95	71.95	71.29	71.32	70.91
NZD/USD	0.6803	0.65	0.65	0.65	0.65	0.64
NZD/AUD	0.9383	0.93	0.93	0.93	0.92	0.92
NZD/JPY	82.06	76.85	76.85	76.32	76.57	76.60
NZD/GBP	0.4571	0.46	0.46	0.45	0.45	0.45
NZD/EUR	0.6221	0.60	0.60	0.60	0.60	0.59
AUD/USD	0.7250	0.70	0.70	0.70	0.70	0.70
EUR/USD	1.0935	1.08	1.08	1.09	1.09	1.09
USD/JPY	120.62	117.78	117.78	118.15	118.13	118.82
GBP/USD	1.4883	1.42	1.42	1.42	1.43	1.42
Oil (US$/bbl)	37.60	29.55	32.07	30.31	29.54	32.32
Gold (US$/oz)	1073.65	1100.55	1101.85	1113.25	1121.10	1122.05
Electricity (Haywards)	7.05	7.61	8.41	5.34	5.23	6.35
Baltic Dry Freight Index	--	354	345	337	325	317
Milk futures (USD)	39	32	33	34	35	35

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